WHAT'S LEFT FOR THE NEW MILLENNIUM?

AN ANALYSIS OF REMAINING TARIFF BARRIERS TO U.S. EXPORTS

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Although tariffs worldwide have decreased as a result of multilateral trade negotiations, industrial tariffs especially in the developing world are a significant and lingering barrier to free trade and U.S. exports. This presents a mounting problem to U.S. firms interested in accessing new markets abroad. While trade among advanced economies still accounts for the majority of international trade, world economic growth has been faster in developing economies. A new World Trade Organization (WTO) round of tariff negotiations is vital to expand U.S. access to developing member markets.

INDUSTRIAL TARIFFS BELONG ON THE AGENDA FOR A NEW ROUND

At present, the WTO's built-in agenda provides for talks in services and agriculture. While these issues are important for the United States, the nation is also competitive in a host of industrial products. Industrial tariffs remain a prominent piece of unfinished business for the multilateral trading system. Talks in Qatar offer an opportunity for the United States and other WTO members to address these remaining barriers to trade.

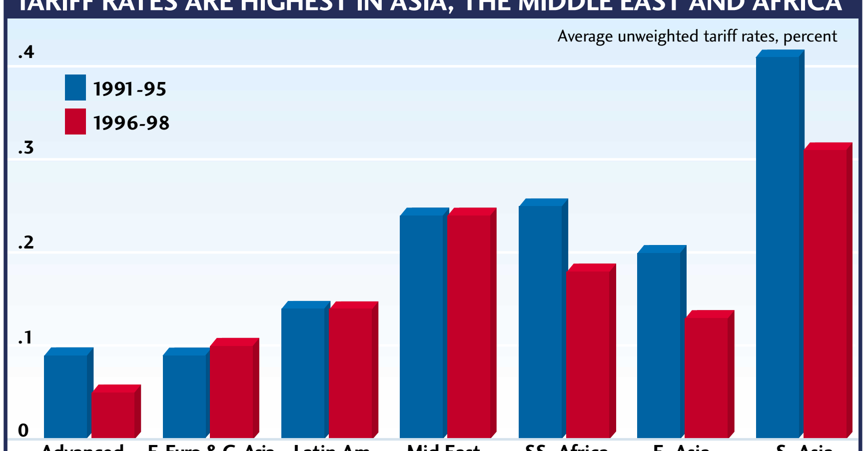
TARIFF BARRIERS AROUND THE GLOBE

The negotiation of the General Agreement of Tariffs and Trade (GATT) created a downward trend in tariff rates spanning five decades. However, this trend is not uniform among developing countries. For example, tariffs in Asia dropped following the Uruguay Round of trade negotiations, but are sometimes four times the rates in advanced economies. Applied average tariffs between 1995 and 1998 in Latin America and the Middle East remained relatively unchanged compared to the previous five years. Over this same period, applied tariffs in the developing world fell from 19.5 to 15.6, while tariffs in advanced economies were reduced significantly from an average of 9.2 percent to 5.2 percent, according to the World Bank.

As the global trading system enters the new millennium, tariff barriers among WTO members tend to be concentrated in developing countries. For example, import tariffs in developing economies on motor vehicles and textiles are applied at more than double the rate, on average, of advanced economies. Although tariffs tend to be lower on chemicals and industrial machinery, developing countries apply duties on these products at rates between two to four times higher on average than advanced economies.

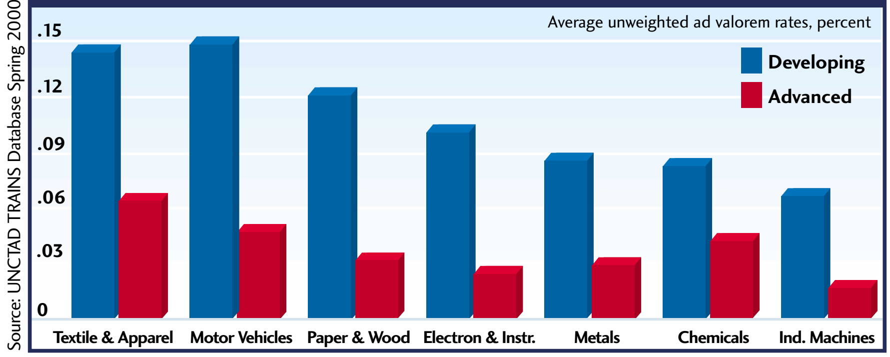
One common misperception is that tariff barriers are high only among non-WTO countries. While it is true that applicant countries joining the

TARIFF RATES ARE HIGHEST IN ASIA, THE MIDDLE EAST AND AFRICA



Source: World Bank, Leveraging Trade for Development, April 2001

TARRIFS ACROSS PRODUCT GROUPS ARE HIGHER IN DEVELOPING COUNTRIES



WTO typically reduce high tariff barriers as a condition of membership, there are a number of developing WTO members who joined under GATT rules, which were less rigorous than the current WTO accession process. As a result, many of these countries still maintain high tariffs.

PROGRESS IN LIBERALIZING TRADE THROUGH MULTILATERAL ROUNDS AND SECTORAL AGREEMENTS

U.S. exporters have benefited from expanded market access as a result of the Uruguay Round of trade negotiations. The share of U.S. exports going to charter WTO members has increased since the round concluded. Merchandise exports to WTO members, according to data from the U.S. Census Bureau, account for 92 percent of U.S. exports to the world.

There have also been a number of sectoral agreements that the U.S. and other participating countries have negotiated to guarantee reduced duties and improved market access for particular product groups. The United States negotiated with other participating WTO members for the elimination of duties on 10 product groupings: agricultural equipment, beer, brown spirits, construction equipment, furniture, medical equipment, pharmaceuticals, paper, steel and toys. In addition, some participating WTO members agreed to reduce tariff levels to an agreed-upon rate for chemical products. Based on the value of U.S. domestic exports of the products covered by the sectoral agreement to countries that have joined the WTO or "significantly participated" in the initiative, exports of these products from the United States totaled $95 billion dollars or 13 percent of total merchandise exports in 2000.

Sectoral negotiations during the Uruguay Round tended to focus on the largest traders and consumers of these goods. The United States, the EU, Canada, Japan, Hong Kong and Singapore joined all initiatives. Korea, Norway, Switzerland, Iceland, Hungary and New Zealand joined only some of the sectoral initiatives. Participation among developing countries in these sectoral agreements was less comprehensive when compared to that of advanced economies. Although two-thirds of international trade is among advanced economies, the World Economic Outlook Database notes that the fastest growing economies are concentrated in the developing world. This fact suggests the increasing importance of expanding participation in tariff elimination to a wider group of developing economies.

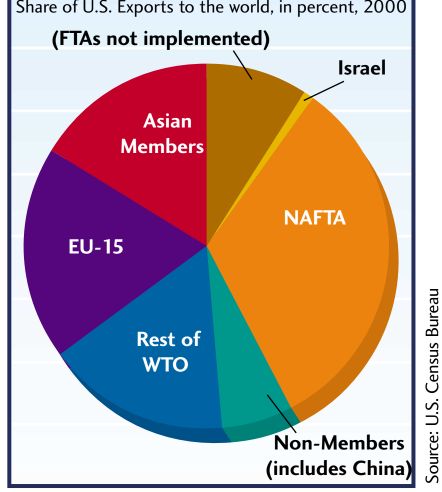
The United States and other major aircraft exporters also developed one of the original sectoral initiatives known as the Agreement on Trade in Civil Aircraft (ATCA). The agreement went into force in 1980 and combines duty elimination with trade rules addressing aircraft production, subsides and procurement. U.S. exports of civil aircraft and parts in 2000, totaled $45 billion, $28 billion of which was shipped to ATCA signatory countries. Twenty-five countries and all major producers of civil aircraft, excluding recent accession countries, have signed this agreement.

In July 1997, the United States and twenty-nine other countries implemented an initiative to eliminate duties on computer, electronic and telecommunication products through a mechanism known as the Information Technology Agreement (ITA). To date, fifty-six parties have signed this agreement to eliminate duties on most information technology products by 2000 with all duties removed by 2005.

According to a 1999 annual report on ITA, trade in information technology goods among signatory nations cover 95 percent of global trade in these products. U.S. exports of ITA products to all countries accounted for $110 billion or 15 percent of total U.S. exports in 2000. U.S. exports to ITA signatory countries—with the exception of Canada—in 2000 totaled $89 billion. The highest tariffs in these goods are found in Africa, Asia and Latin America. Argentina and Brazil apply tariffs as high as 31 percent on automatic data processing machines (HS 8471).

CURRENT U.S. FREE TRADE AGREEMENTS COVER OVER A THIRD OF U.S. EXPORTS

Share of U.S. Exports to the world, in percent, 2000



STATUS OF NEGOTIATIONS, COVERAGE AND IMPACT OF U.S. FTAS

The value and destination of U.S. exports is one measure to consider when targeting negotiation efforts. According to the U.S. Census Bureau, the two U.S. free trade agreements in force, NAFTA and U.S.-Israel, covered 37 percent of total U.S. exports in 2000. As NAFTA tariff phase-outs have been implemented, the share of trade among NAFTA partners has been rising. United States FTAs under negotiation or awaiting ratification (i.e. the FTAA, U.S.-Chile, U.S.-Singapore and U.S.-Jordan) would account for an additional 10 percent of total U.S. exports. In all, U.S. FTAs negotiated or under negotiation would account for 47 percent of U.S. exports.

Altogether, current sectoral initiatives and free trade agreements secure duty-free access—defined, as the value of domestic exports in 2000 to NAFTA and Israel, exports to participants of ITA, ATCA and Uruguay Round zero duty secorals—for the majority of U.S. exports. Although this fact is impressive, focusing exclusively on export coverage of trade agreements may be misleading. For example, if all countries except Canada and Mexico raised prohibitively high tariff barriers, which discouraged all U.S. exports, NAFTA might account for 100 percent of exports. Hence, the number of exports covered by specific trade agreements should not signal a pause in negotiation efforts.

Another indicator of trade agreement coverage is gross domestic product—the total value of consumption and production in an economic area. If gross domestic product were used to measure coverage of exports by U.S. FTAs, current U.S. agreements implemented or negotiated would account for six percent of world gross domestic product outside of U.S. borders. Based on the purchasing power parity shares of world Gross Domestic Product for 1999, adding the FTAA would more than double the figure to 14 percent of GDP outside of the United States. In light of this fact, U.S. efforts to negotiate an FTA in the Americas would be a significant achievement especially considering tariffs on U.S. exports average 13.3 percent within the hemisphere.

U.S. EXPORTERS ARE DISADVANTAGED BY PROLIFERATING TARIFF PREFERENCES

While the United States played a crucial role in past trade negotiations, in recent years U.S. negotiation efforts have not kept pace with the negotiations of other competitors and trading partners. The United States is a party to only two out of more than 130 free trade agreements in force globally. As a result, U.S. exporters often face relatively high most-favored nation tariff rates while competitors increasingly receive preferential and even duty-free access to lucrative, foreign markets.

CONCLUSIONS

This analysis of trade agreements and tariff barriers demonstrates several key points for U.S. trade policy:

A new WTO Round is vital to ensure market access and further reduced tariff barriers for U.S. firms around the globe.

- Members of the WTO (outside of U.S. FTAs and FTA negotiations) account for a little under half of U.S. exports, according to the U.S. Census Bureau.
- Members of the WTO (outside of U.S. FTAs and FTA negotiations) account for 62 percent of GDP beyond U.S. borders.

A new round of tariff negotiations is particularly vital to expand U.S. access in developing member markets.

- While trade among advanced economies accounts for two-thirds of global trade, world economic growth post Uruguay Round has been faster in developing economies.
- WTO sectoral initiatives, at present, do not include many developing member countries. Tariff barriers remain significant in those countries.

Regional free trade areas are another key venue to expand U.S. access to foreign markets.

- The FTAA would significantly expand duty-free access for U.S. goods, more than doubling the foreign economic area in which the United States has duty free access as a percentage of GDP.
- This type of duty-free access does matter. As demonstrated by U.S. exports to Mexico since the implementation of NAFTA, lowering duties was followed by expanded exports and economic growth.

In order to ensure that the U.S. continues to negotiate tariff reductions and eliminations around the world, the agenda for the WTO New Round should provide not only for talks in services and agriculture, but in industrial products as well.

- Industrial goods comprise the majority of U.S. exports accounting for 65 percent of total goods and services sold abroad.
- Post-Uruguay Round, U.S. exports of industrial goods grew as fast as services in percentage terms and faster than agricultural exports.
- Since the conclusion of the Uruguay Round, U.S. exports of industrial goods grew dollar for dollar more than twice the value of agriculture and services exports combined.

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